

TRANSCONNECT FORMATION PLAN

The electric public utilities listed in the definition of "Utility Members" contained in Article I desire to form a limited liability company under the laws of Delaware to acquire the interstate transmission assets of each such utility and for such company to participate in the RTO West proposed in the filing made by the Utility Members (as defined below), Bonneville Power Administration, Idaho Power Company and PacifiCorp. with the Federal Energy Regulatory Commission pursuant to its Order No. 2000. In connection with the formation of the limited liability company the Utility Members proposed to form a corporation under the laws of Delaware to act as the managing member of the limited liability company.

ARTICLE I **Definitions**

The following capitalized terms used in this Plan shall have the meanings set forth below:

"Affiliate" means an affiliate, as defined by the FERC in its Order No. 2000.

"Board Selection Committee" has the meaning set forth in Section 3.1 hereof.

"Business Day" means any day (other than a day which is a Saturday, Sunday or federal holiday in the United States).

"By-Laws" means the By-Laws of the Corporate Manager, attached hereto as Exhibit B.

"CEO" has the meaning set forth in Section 3.5 hereof.

"Certificate of Formation" means the Certificate of Formation of TransConnect LLC, attached hereto as Exhibit C.

"Certificate of Incorporation" means the Certificate of Incorporation of TransConnect Corporate Manager, Inc., attached hereto as Exhibit A.

"Compliance Auditor" has the meaning set forth in Section 4.1 hereof.

"Corporate Manager" means TransConnect Corporate Manager, Inc., a corporation organized under the laws of the State of Delaware, which is the managing member of TransConnect LLC.

"Divestiture Notice" means a written letter of intent delivered by a transmission owner to the members of TransConnect LLC and filed with the FERC stating that such transmission owner intends to divest its interstate transmission assets to TransConnect LLC in exchange for a non-managing member interest in TransConnect LLC as contemplated by the Operating Agreement, and setting forth the principal terms and conditions of such transmission owner's proposal to effect such divestiture.

"FERC" means the Federal Energy Regulatory Commission, or any successor entity thereto.

"Major Transmitting Utility" means each of the following entities: Avista Corporation, a Washington corporation, Montana Power Company, a Montana corporation, Portland General Electric Company, an Oregon corporation, Puget Sound Energy, Inc., a Washington corporation, Sierra Pacific Power Company, a Nevada corporation, and Nevada Power Company, a Nevada corporation.

"Market Participant" means a market participant as defined by Order No. 2000.

"Member and Stockholder Agreement" means that certain Member and Stockholder Agreement, attached hereto as Exhibit F.

"Nonutility Entity" means any entity, other than a Major Transmitting Utility, Transmission Dependent Utility, Retail Customer, State Energy Authority or Utilities Commission or Tribal Utility Regulatory Authority, that is located, conducting business or operating within the TransConnect Electric Service Area and that owns or has contractual rights to use transmission facilities.

"Operating Agreement" means the Limited Liability Company Operating Agreement for TransConnect LLC, attached hereto as Exhibit D.

"Order No. 2000" means Order No. 2000 issued by the FERC and all supplements and amendments thereto that are effective as of the date hereof.

"Participating Jurisdiction" means any state (except for the State of California) in which there are located transmission facilities owned by TransConnect LLC.

"Person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, governmental entity or any department or agency thereof.

"Plan" means this TransConnect Formation Plan together with all of the Exhibits attached hereto.

"Retail Customer" means any residential, commercial, agricultural or industrial end-user consumer of electric power (or any bona fide governmental or public interest organization advocating the interests of such consumers, or any segment thereof, as retail electric customers) that (i) is not a Major Transmitting Utility, Transmission Dependiant Utility, Nonutility Entity, State Energy Authority or Utilities Commission or Tribal Utility Regulating Authority, (ii) is located in the TransConnect Electric Service Area and (iii) is not a Market Participant as defined by Order No 2000.

"RTO" means a RTO as defined by Order No. 2000, or any subsequent order or rulemaking issued or made by the FERC relating to the same.

"RTO West" means the regional transmission organization formed pursuant to Order No. 2000 to serve markets in the western United States.

"Search Firm" has the meaning set forth in Section 3.5 hereof.

"Small Retail Customer" means a Retail Customer who or which, individually or together with all of its Affiliates, has an aggregate retail electric load within the TransConnect Electric Service Area of less than five megawatts.

"Standards of Conduct" means the Standards of Conduct as applicable to the Corporate Manager and TransConnect LLC, as approved by the FERC and in effect from time to time.

"State Energy Authority or Utilities Commission" means (i) the utilities regulatory commission of each Participating Jurisdiction, (ii) any other state agency in any Participating Jurisdiction that has ratemaking, siting, resource planning or other authority with regard to electrical energy and that is designated by the

governor or other chief executive officer of a Participating Jurisdiction, by notice to the Utility Member, as a member in the State Energy Authorities and Utilities Commissions Class, and (iii) the Northwest Power Planning Council.

"Subscription Agreements" means those Subscription Agreements by and between the Corporate Manager and each person named as a candidate for election as an initial director of the Corporate Manager, each in the form attached hereto as Exhibit E.

"TransConnect Electric Service Area" means the geographic area served by the Major Transmitting Utilities.

"TransConnect LLC" means that certain Delaware limited liability company to be formed as contemplated herein, which limited liability company shall hold and operate the transmission assets to be acquired from the Utility Member.

"Transmission Dependent Utility" means any investor-owned utility, municipality, municipal utility, public utility district, people's utility district, cooperative corporation, joint powers agency, federal power marketing agency, irrigation district, joint powers authority that includes one or more of such agencies, tribal utility, or other entity that (i) furnishes electric services over a distribution system (whether its own or its members') located within the TransConnect Electric Service Area and (ii) is not a Major Transmitting Utility.

"Transmission Owner" means any investor-owned utility, independent transmission company, municipality, municipal utility, public utility district, people's utility district, cooperative corporation, joint powers agency, federal power marketing agency, irrigation district, joint powers authority that includes one or more of such agencies, tribal utility, or other entity that furnishes electric services over an electric transmission or distribution system (whether its own or its members') located within the TransConnect Electric Service Area, and that has transferred operational control of its transmission facilities to RTO West.

"Tribal Utility Regulatory Authority" means any tribal governmental entity that is located in the TransConnect Electric Service Area, that exercises ratemaking, siting, resource planning or other authority with regard to electrical energy and that is designated by notice to the Major Transmission Utilities proposing to become Utility Members by the governing council of such tribe.

"Utility Member" means each of the electric public utility companies which have given a Divestiture Notice.

"Voting Trust Agreement" means that certain Voting Trust Agreement, attached hereto as Exhibit G.

ARTICLE II

Formation of the Corporate Manager and TransConnect LLC

2.1 TransConnect LLC. The Utility Members intend to form TransConnect LLC in the State of Delaware to hold and operate the interstate transmission assets of the Utility Members. The Utility Members intend to contribute all of their interstate transmission assets to TransConnect LLC as soon as practicable following the formation of TransConnect LLC, subject to all required regulatory approvals and approval of the boards of directors of each Utility Member.

2.2 The Corporate Manager The Utility Members shall use all commercially reasonable efforts to cause, as soon as practicable following the selection of the initial board of the Corporate Manager, as contemplated by Article III hereof, the formation of the Corporate Manager as a Delaware corporation, including, without limitation, filing, or causing to be filed, the Certificate of Incorporation, in the form attached hereto as Exhibit A, with the Secretary of State of the State of Delaware causing the Corporate Manager to adopt the By-Laws, in the form attached hereto as Exhibit B, and taking, or causing to be taken, any and all such further actions as shall be necessary to effect the formation of the Corporate Manager as contemplated hereby and in the Certificate of Incorporation and the By-Laws.

2.3 Ownership Limitation. Utility Members may purchase and own shares of Class A Common Stock of the Corporate Manager, but no Utility Member may at any time own more than 5% of the outstanding shares of such Class A Common Stock and all of the Utility Members in the aggregate may not own at any time more than 15% of the outstanding shares of such Class A Common Stock. After five years after the commencement of the Corporate Manager's operations, no Utility Member may at any time own any shares of Class A Common Stock of the Corporate Manager. The foregoing restrictions on ownership of shares of Class A Common Stock of the Corporate Manager shall not apply to any Utility Member which is not at the time a Market Participant.

2.4 TransConnect LLC. The Utility Members shall use all commercially reasonable efforts to cause, as soon as practicable following the formation of the Corporate Manager, the formation of TransConnect LLC as a Delaware limited liability company, including, without limitation, filing, or causing to be filed, the Certificate of Formation, in the form attached hereto as Exhibit C, with the Secretary of State of the State of Delaware, executing, or causing to be executed by all the parties thereto, the Operating Agreement, in the form attached hereto as Exhibit D, and taking, or causing to be taken, any and all such further actions as shall be necessary to effect the formation of TransConnect LLC as contemplated hereby and in the Operating Agreement.

2.4. Additional Agreements. The Utility Members shall use all commercially reasonable efforts to execute, or cause to be executed by the respective parties thereto, in each case as contemplated hereunder, the Subscription Agreements, in the form attached hereto as Exhibit E, the Member and Stockholder Agreement, in the form attached hereto as Exhibit F, and the Voting Trust Agreement, in the form attached hereto as Exhibit G, and to take, or cause to be taken, any and all such further actions as shall be necessary to effect the transactions contemplated hereby or thereby.

ARTICLE III

Initial Board Selection

3.1 Board Selection Committee. A board selection committee (the "Board Selection Committee") shall be established which shall be charged with the responsibility of selecting the initial slate of directors for the Corporate Manager. The Board Selection Committee shall consist of the indicated number of representatives from each of the five following stakeholder classes, with each representative having one vote on all matters to be decided by the Board Selection Committee:

- (i) The Major Transmitting Utilities Class shall consist of two members of the Major Transmitting Utilities selected by the majority vote of all Major Transmitting Utilities.
- (ii) The Transmission Dependent Utilities Class shall consist of one member of the Transmission Dependent Utilities selected by the majority vote of all Transmission Dependent Utilities.

- (iii) The Nonutility Entities Class shall consist of one member of the Nonutility Entities Class selected by the majority vote of the Nonutility Entities.
- (iv) The Retail Customers Class shall consist of one member of the Retail Customer Class and shall be selected by the majority vote of the members of the Small Retail Customer Subclass and the Large Retail Customer Subclass, voting together.
- (v) The State Energy Authorities and Utilities Commissions Class shall consist of one member of this class selected by the majority of the members of this class.

3.2 At any time after (i) the FERC has issued an order pursuant to the TransConnect LLC's Compliance filing under Order No. 2000 approving the governance provisions proposed in the filing, (ii) the FERC has issued an order approving the formation of the RTO West and its Advisory Committee, and (iii) any one or more of the Utility Members have decided to effect the transactions contemplated hereby, the members of the Board Selection Committee representing the five stakeholder classes described in Section 3.1 shall be selected by the five stakeholder classes of the RTO West which are comparable to the stakeholder classes set forth above in accordance with the by laws of the RTO West (except that the representative of the stakeholder class described in Section 3.1(v) shall be selected by only by the State and Provincial Energy Authorities and Utilities Commissions segment of the comparable RTO West stakeholder class). If at any time after (i) such order relative to TransConnect LLC is issued and (ii) such Utility Member(s) have decided to effect the transactions contemplated hereby, the FERC has not approved the formation of the RTO West, then the members of the Board Selection Committee representing the five stakeholder classes described in Section 3.1 shall be selected pursuant to the following procedure:

First, the Utility Members will cause to be published on the RTO West website and on the OASIS of each Utility Member, a notice containing the following information:

- (1) A definition of each of the five stakeholder classes described in Section 3.1;
- (2) An invitation to interested Person's to participate in the Board Selection Committee selection process by filing

with each Utility Member a statement of such Person's interest to participate in the selection process and a description of such Person's activities which entitle it to be a member of the stakeholder class designated by such Person, together with payment of a \$500 administrative fee, which fee may be waived at the discretion of the Utility Members, to be applied toward the payment of the costs of the Board Selection Committee; provided, however, that no Person which is entitled to be a member of the stakeholder class described in Section 3.1(v) shall be required to pay an administrative fee;

- (3) Notice of a meeting of each of the above described stakeholder classes to be held at the time and place specified in the notice (which time shall be within 30 days of the publication of the notice on the RTO West website and on the OASIS of each Utility Member) at which the stakeholder classes may meet and select their representative by the majority vote of the Persons present at the meeting who have complied with the requirements of paragraph (2) above and whose qualifications to become a member in the stakeholder class have not been objected to by the majority of the qualified members of the stakeholder class present at the meeting; and
- (4) A statement that a failure of any stakeholder class to select a representative to serve as a member of the Board Selection Committee shall result in such stakeholder class not having a representative on the Board Selection Committee.

Second, the meeting provided for in the notice shall be held in accordance with the notice (with separate meetings for each stakeholder class) at which each stakeholder class shall decide by the vote of a majority of the members of the stakeholder class any challenges to the qualifications of any Person's inclusion in the stakeholder class and shall conduct votes for the selection of the representative of the stakeholder class until a majority of the stakeholder class shall approve a member to represent the stakeholder class. All voting procedures shall be established by the vote of the majority of the members of the stakeholder class.

Third, the names of the members selected pursuant to this procedure shall be published on the RTO West website and on the OASIS of each Utility Member.

No single entity, or any Affiliate of any such entity, shall have more than one representative on the Board Selection Committee.

3.3 As soon as practicable following the formation of the Board Selection Committee, the Board Selection Committee shall meet to elect a chairman and a vice-chairman and to determine initial procedures that are necessary or advisable for the Board Selection Committee to take action and conduct its affairs in accordance with the terms of this Plan.

3.4 Director Qualifications. In addition to the qualifications for directors of the Corporate Manager contained in the Certificate of Incorporation and the By-Laws, those persons chosen to serve as initial directors of the Corporate Manager shall also have qualifications equivalent to those of directors of public corporations with equivalent or larger revenues and assets than that anticipated for the Corporate Manager and that such initial directors shall reflect, as much as is practicable, a mix of backgrounds and experience; provided, however, that experience in the electric industry is not a prerequisite. In addition, those persons selected as such initial directors shall be of a caliber that will engender credibility in the marketplace, maximize the value of an initial public offering of the Corporate Manager and provide the Corporate Manager with quality and experienced leadership. The Board Selection Committee shall require the Search Firm (as defined below) to select and consult with a nationally recognized investment banking firm concerning the qualifications of directors necessary to achieve the foregoing goals. At least six of such initial directors shall be or have been a president, chief executive officer, chief operating officer, chief financial officer or director of at least one publicly traded corporation, and no such initial director shall be 72 years of age or older.

3.5 Search Firm. The Board Selection Committee shall retain one of the following nationally recognized search firms: Korn/Ferry International, Heidrick & Struggles International or Russell Reynolds International (such firm selected, the "Search Firm") to propose to the Board Selection Committee 15 candidates for election as initial directors of the Corporate Manager, which candidates must (i) satisfy all of the qualifications described in Section 3.4 hereof, the Certificate of Incorporation and the By-Laws (except that only six of the candidates must be or have been a president, chief executive officer, chief operating officer, chief financial officer or director of at least one publicly traded corporation) and (ii) agree, if elected, to

serve as directors of the Corporate Manager, to execute a Subscription Agreement as contemplated by Section 3.8 hereof, to execute the Voting Trust Agreement as contemplated by Section 3.8 hereof, and take all such other actions required to be taken by the directors of the Corporate Manager as contemplated under this Plan. In addition, the Board Selection Committee shall retain the Search Firm to propose 3 candidates who are qualified with the requisite credentials to serve as the Chief Executive Officer (the "CEO") of the Corporate Manager. The Board Selection Committee shall require the Search Firm to propose its pool of candidates to the Board Selection Committee as soon as practicable following its retention of the Search Firm. Except for such disclosure as may be necessary for customary reference checks and for advising individuals proposed by the Search Firm of the names of other individuals so proposed, the identities of those individuals proposed by the Search Firm to the Board Selection Committee shall be kept in the strictest confidence by both the Search Firm and the Board Selection Committee and shall not be shared with any other Person until the Board Selection Committee publicly declares its slate of candidates for election as initial directors of the Corporate Manager by publishing their names on the RTO West website and the OASIS of each Utility Member. The Search Firm and all members of the Board Selection Committee shall be required to execute a standard confidentiality agreement to such effect.

3.6 Selection Process. Upon receipt from the Search Firm of its proposed pool of candidates, the Board Selection Committee shall have the discretion to select by the affirmative vote of two-thirds of its members eight candidates as its slate of candidates for election as initial directors of the Corporate Manager and shall determine the class of directors in which each such candidate shall serve in accordance with the Certificate of Incorporation, provided, however, that the CEO (as selected below) shall serve in the class of directors having the term with the latest expiration date.

3.7 Selection of the CEO and the Chairman and Vice Chairman of the Board of Directors. As soon as practicable following the Board Selection Committee's declaration of its slate of candidates, the Board Selection Committee shall require, and use all commercially reasonable efforts to cause, such candidates to meet and select an individual who satisfies the independence requirements of the Certificate of Incorporation and the By-Laws to serve as the initial CEO. Immediately following the election of the members of the Board of Directors, the directors shall select from among the members a Chairman and a Vice Chairman of the Board of Directors to perform the duties ascribed to such positions in the By-Laws. The CEO may be selected to serve as Chairman or Vice Chairman of the Board of Directors.

3.8 Election of Directors and Initial Meeting. As soon as practicable following the selection of the CEO, the Utility Members shall cause the Board Selection Committee's slate of candidates and the CEO to be elected or named as initial directors of the Corporate Manager, in such classes as are determined under Section 3.6 hereof, in the following manner: (i) each person identified on the Board Selection Committee's slate of candidates and the member selected as the CEO shall agree to purchase one hundred (100) shares of Class A Common Stock of the Corporate Manager by executing a Subscription Agreement, in the form attached hereto as Exhibit E; (ii) the names of such persons shall be listed as the initial directors of the Corporate Manager, designated in such classes as are determined under Section 3.6 hereof, in the Action of the Sole Incorporator of the Corporate Manager; (iii) as soon as practicable thereafter, the directors of the Corporate Manager shall hold their initial meeting of the board of directors of the Corporate Manager, at which meeting such directors shall (v) authorize the issuance to each director, in accordance with such director's Subscription Agreement, one hundred (100) shares of Class A Common Stock of the Corporate Manager at a price per share of ten dollars (\$10), which shares, upon receipt of consideration therefor and following their issuance, shall be the only outstanding shares of Class A Common Stock of the Corporate Manager, (w) approve the By-Laws as the By-Laws for the Corporate Manager, (x) authorize the Corporate Manager's execution and delivery of the Operating Agreement and the Member and Stockholder Agreement; (y) appoint the Compliance Auditor (as contemplated by Section 4.1 hereof) as the independent compliance auditor of the Corporate Manager and require the Compliance Auditor to perform those duties described in Section 4.2 hereof; and, (z) take such other action as such directors deem necessary in order to consummate the transactions contemplated hereby; and (iv) immediately upon the issuance of shares of Class A Common Stock of the Corporate Manager to each director, each such director shall execute the Voting Trust Agreement pursuant to which each director will agree to deposit his or her shares into a voting trust and to cause his or her shares to be voted in accordance with the decision of a majority of the directors on any particular matter on which the directors shall vote.

3.9 Compensation. The directors and the CEO of the Corporate Manager shall be compensated, in accordance with the Certificate of Incorporation and the By-Laws, commensurate with the compensation of directors and chief executive officers of companies of comparable size and business activity, recognizing, however, that initially, the Corporate Manager will be a start-up company.

ARTICLE IV
Independent Compliance Auditing

4.1 Appointment of Compliance Auditor. The Board Selection Committee shall select a firm that (i) is one of the ten largest accounting firms in the United States and (ii) is not affiliated with the Corporate Manager, TransConnect LLC, any Utility Member of TransConnect LLC, any holder of shares of Class B Common Stock or Class C Common Stock of the Corporate Manager, or any Market Participant (except that the such firm may also be the independent public accountant for either the Corporate Manager or TransConnect LLC) (such firm selected, the "Compliance Auditor") to serve as the independent compliance auditor of the Corporate Manager and TransConnect LLC. As soon as practicable following the Board Selection Committee's selection of the Compliance Auditor, the board of directors of the Corporate Manager shall appoint the Compliance Auditor as the independent compliance auditor of the Corporate Manager and TransConnect LLC. The Corporate Manager may require the Compliance Auditor to resign if the Board of Directors of the Corporate Manager determines in good faith that (a) the cost of the Compliance Auditor is unreasonable for the services provided and in comparison with the cost of similar services provided to others; (b) the functions of the Compliance Auditor are no longer required by the applicable rules, regulations and policies of the FERC; or (c) the Compliance Auditor fails to meet the independence requirements provided for in this Section 4.1 or other standards required by the FERC for compliance auditors under Order No. 2000 or any supplemental or amending orders relating thereto. The Corporate Manager shall publish on its OASIS, if any, and on the RTO West's OASIS notice of such required resignation 30 days in advance of its proposed effective date and the resignation shall become effective after such 30 day period unless the FERC shall object to such effectiveness. In the event the FERC shall object to the resignation, it shall not become effective until it is approved or the FERC determines that it shall not object by either an order issued by the FERC or by appropriate action of its Staff. In the event of any vacancy in the position of Compliance Auditor, whether caused by resignation or otherwise, a replacement Compliance Auditor shall be selected by a Compliance Auditor Selection Committee which shall be selected by the same class voting procedure used to create the Board Selection Committee. Notice of these procedures shall be given to the FERC and published on TransConnect LLC's OASIS, if any, and on the RTO West's OASIS 20 days in advance of the commencement of the selection procedures. The Compliance Auditor Selection Committee shall act by the vote of the majority of its members. The Compliance Auditor selected pursuant to these procedures shall comply with the independence standards provided for in this Section 4.1.

4.2 Responsibilities of Compliance Auditor. The Corporate Manager shall require the Compliance Auditor to develop and implement a system of independent compliance auditing to ensure that the limitations on stock ownership and the director, officer and employee independence requirements contained in the Certificate of Incorporation, the By-Laws and the Standards of Conduct are fully satisfied. In performing such duties, the Compliance Auditor shall be authorized to conduct such audits of the directors, officers and employees of the Corporate Manager and TransConnect LLC as such Compliance Auditor, in its discretion, deems necessary to implement its system of independent compliance auditing. The Compliance Auditor shall conduct an initial audit of the passive ownership arrangements of the Corporate Manager and TransConnect LLC within two years of the effective date of operations and every three years thereafter. The Compliance Auditor shall have the right to report any findings and recommendations to the FERC without prior approval of the Corporate Manager or the members of TransConnect LLC, but shall request confidential treatment of any such reports to the extent they include or are based on confidential corporate or personal information or data. The Compliance Auditor shall have authority to obtain the information or data necessary to perform these audits. Except as required by (or ensuring compliance with) law, the Certificate of Incorporation, the By-Laws or this Plan, the Compliance Auditor shall keep confidential all information relating to the security holdings of a director, officer or employee of the Corporate Manager or TransConnect LLC.

4.3 Annual Compliance Affidavit. The Corporate Manager shall require each of its directors, officers and employees and TransConnect LLC shall require each of its officers and employees, to file annually with the Compliance Auditor an affidavit certifying that such director, officer or employee is in compliance with the limitations on stock ownership and the independence requirements, as applicable, contained in the Certificate of Incorporation, the By-Laws, the Operating Agreement and the Standards of Conduct.